

Rainy Day Fund / Revenue Volatility Working Group

Policy Issues Associated with Budget Reserve Accounts

June 12, 2007 Draft

#	Issue	Current Law / Practice	Recommendations / Options
1	What is the purpose of rainy day funds? Should there be limitations on the use of these funds?	Funds may currently be used for: <ul style="list-style-type: none"> • operating deficits • certain state settlement agreements • retroactive tax refunds (?) 	(a) Cover current fiscal year shortfalls (b) Settlement agreements (c) Retroactive tax refunds (?)
2	Should the General Fund and Education Fund have a separate rainy day fund?	Currently separate rainy day funds for General Fund and Education Fund (and Disaster Recovery)	Continue current policy of separate funds
3	Based on the volatility of the tax system, how big should the fund(s) be? Is a target other than 6% needed (possibly tied to an automatic transfer until target reached)? Is a limit / or ceiling on the fund balance needed? Are separate targets needed for the General Fund and Education Fund budget reserve accounts?	Automatic transfers limited to 6% of total appropriations (see statutory clarification issues #1 & 2)	(a) What is the volatility of revenue sources for the General Fund and Education Fund? (<i>staff continuing to work on this issue and identify risk / volatility of different revenue sources</i>) (b) How should the revenue volatility and rainy day fund size be linked? If separate accounts, what is the appropriate size of the rainy day fund for the General Fund and for the Education Fund? (c) Should a budgetary "structural surplus" be considered when making this determination (i.e., use of ongoing revenues for one-time programs / projects)?
4	What should be the trigger(s) for deposits into the rainy day fund(s)?	Under current law, funds are deposited by legislative appropriation and by automatic transfer of a portion of a surplus (up to the cap)	(a) Legislative appropriation (b) Automatic transfer, based on: <ul style="list-style-type: none"> (i) surplus revenue (ii) total revenue growth (iii) other?
5	What should be the trigger(s) for withdrawals from the rainy day fund(s)?	Currently, the General Fund and Education Fund budget reserve accounts are restricted accounts. As such, funds must be appropriated by the Legislature (constitutional majority) before they are expended.	(a) Continue current policy of requiring legislative appropriation to utilize funds (constitutional majority vote....understanding that in many cases, a 2/3 vote will be required for an immediate effective date) (b) Should a higher voting threshold allow for uses other than a current fiscal year shortfall?

